

# COMPETITIVE ADVANTAGE AND ITS IMPACT IN SMALL AND MEDIUM ENTERPRISES (SMEs) (CASE OF ALBANIA)

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## Abstract

Nowadays, the small and medium enterprises (SME) constitute a very important segment of the Albanian economy. The SME sector is the major drive which promotes the growth of jobs in a country's economy. The development of the country is linked to the strengthening and enhancement of the private sector where SMEs play an important role. The growth of SME in services, agriculture, construction, and so on, has been considered as the engine growth and has contributed to the Albanian economy. Sustainable growth and the increase of SME competitiveness will provide the environment for investment and employment. The SME sector has grown rapidly over these 23 years of market economy.

The main purpose of this paper is to emphasize the growing importance of the SME sustainable competitive advantage. This paper offers some guidelines for SMEs, in order to achieve competitive advantage.

In a broader view, this paper will serve as an information source that will promote and orient SMEs towards competitive advantage. In this way, it will contribute to the continuous growth and dynamic development, as well as to the increase of the productivity and business competitiveness in Albania.

Finally, this paper would provide some available conclusions and concrete recommendations.

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**Keywords:** Small and Medium Enterprise, strategic management, performance, competitive advantage, resource- based view of the SME

## Introduction

The small and medium enterprises (SMEs) play a critical role in the development of the country (Hunjra, 2011). SMEs constitute a growing force in the Albanian economy. During the communist regime, Albania had a centralized, state economy where everything was owned by state.

Consequently, Albania set on the road to the market economy without experience. For more than two decades, during the transition period, a lot of new businesses have started. Most of them have faced new challenges and crises but they have managed to face them successfully.

In both developed and especially developing countries, SMEs constitute the main force of the economy. Developing countries are having great benefits from the SMEs. For the SMEs, being active on the market means to be known, to be visible among others, and to become the first option for their clients in the purchase (Epure, Lianu, & Epure, 2009).

In the developing countries SMEs constitute the main sources of national income and create an important area for entrepreneurship (Keskin, & Senturk 2010). Harrison and Watson (1998) point to the flexibility of SMEs, their simple organizational structure, their low risk and receptivity as the essential features facilitating them to be innovative.

In order to compete and sustain successfully, locally, and globally, micro, small and medium enterprises must not only be perfect in their area, but also persevere in the long run.

### ➤ Definition of SME

The technical definition of SME differs from country to country. According to the European Commission, SMEs are divided into three categories, as displayed in the table below:

Criteria		Micro	Small	Medium
Maximum number of employees		9	49	249
Maximum annual turnover		n/a	7 million Euros	40 million Euros
Maximum annual balance sheet total		n/a	5 million Euros	27 million Euros
Independence		n/a		

*Source: European Commission (2001).*

Scot & Bruce (1987) offer a definition of the SME. In their opinion, SME is one that has the following characteristics:

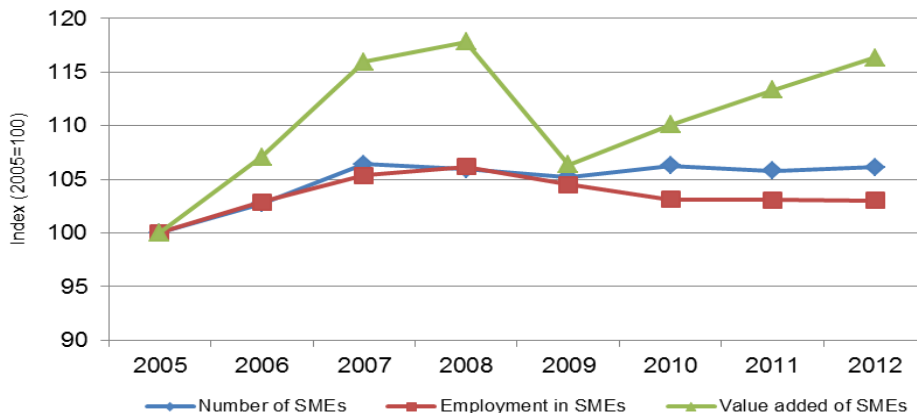
1. Management is independent, usually, the owner is the manager.
2. The capital is offered and the ownership is kept by one or a small group.
3. There is mainly a local area of operation. The owners and workers are usually from the same community.

According to Herts, the SME is referred to by a number of firms and businesses (1982) as:

### **The macroeconomic impact of SME in the economy**

SMEs play a vital role in the economy. The successful SMEs can contribute significantly to the economic development of the country. SMEs play a key role in generating employment, promoting innovation, creating competition and generating economic wealth (Bannock, 1981).

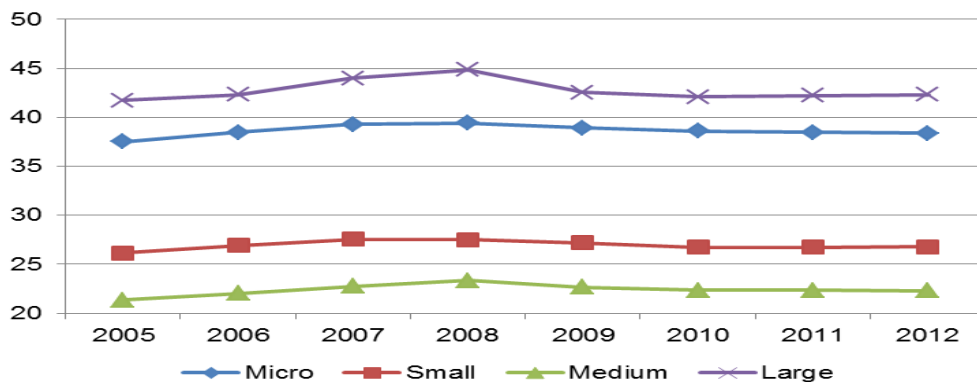
**Figure 1:** Number of SMEs, employment in SMEs and value added of SMEs



*Source: Eurostat/National Statistics Offices of Member States.*

As can be seen from the graph, there is a recession in the years 2008-2009, however, some of the enterprises could do well and had employment growth and increase of the value added. There is also an increase in the number of SMEs.

**Figure 2:** Employment by size class ( in millions)



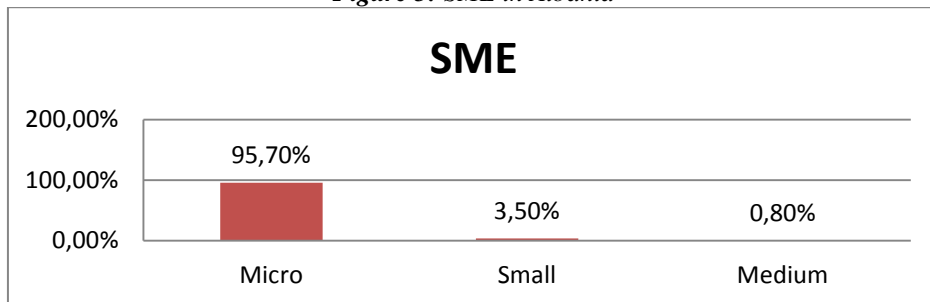
*Source: Eurostat/National Statistics Offices of Member States*

As displayed in the graph, it can be said that the majority of the workforce is employed by SMEs. The graph shows that after the 2009, only the micro businesses had an increase in some states like Germany, Austria,

and so on. The performance of the SMEs differ from country to country and from one type of business to another.

### Some data for the Albanian SME

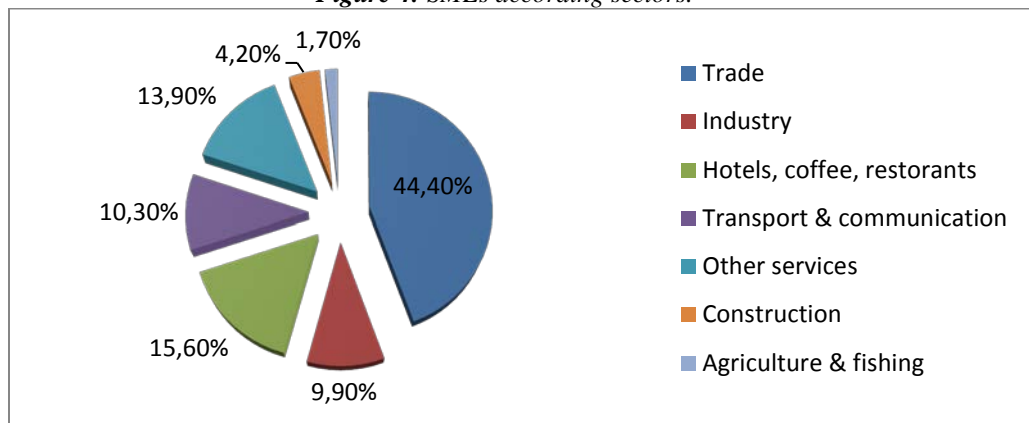
*Figure 3: SME in Albania*



*Source: Ministry of Economy*

The graph above shows the percentage of micro, small and medium enterprises in the Albanian economy. It can be seen that micro enterprises constitute the dominant enterprises in this economy. Besides it testifies to the fact that SMEs and especially micro enterprises have the majority of the workforce. SMEs in general play a key role in the economy.

*Figure 4: SMEs according sectors.*



*Source: Ministry of Economy in Albania*

It can be noticed that the most important sector is the wholesale and retail trade. Hotels-Bar-Restaurants, services, construction and so on, can be ranked after trade.

For more than two decades, a lot of SMEs and new businesses have been growing through huge challenges. Managers take the responsibility for creating competitive advantage.

### The importance of the SMEs

According to UNIDO, WSIS Report (February 2003) SMEs are very important. The only way to reduce poverty in a sustainable way is to

promote economic growth, through wealth and employment creation in the developing countries. SMEs are the major source of income, a breeding ground for entrepreneurs and a provider of employment.

Micro, small and medium enterprises have to know what their resources are. Besides, they need to know how to use them and turn them in an advantage for their business. However, in the frame of the global economy, SMEs cannot compete by just looking at the cost and by just cutting it; they must compete on the basis of knowledge and the value added (Sevrani & Hamiti, 2008).

### **Different theories pertaining to competitive advantage**

It is often said that strategic management is especially important just for the corporation and it has happened that the manager of the SME did not pay the right attention to the strategic management of the SME.

The concept of the competitive advantage is given by Barney (1991) who writes that a firm has sustainable competitive advantage when it implements the strategy of the value creation that is not implemented by other competitors. Competitive advantage is the capability of the organization to do its activity in a way or in different ways, that other competitors can not realize (Kotler, 2000). Competitive advantage is a base for a good strategy and a good one creates competitive advantage (Analou & Karami 2003). The importance of the competitive advantage is increased these last decades (Coplin, 2002). Competitive advantage is considered as objective of strategy. Porter (1985). A firm has competitive advantage when it is able to create more economic value than its rivals (Barney & Hesterly 2010) do. Porter's (1985) arguments reflect the strengths, weaknesses, opportunities, and threats (SWOT) of the framework for assessing competitive advantage. Competitive advantages are those factors that a firm needs to have in order to succeed in business (Analou & Karami, 2003).

There are two types of competitive advantage; the cost of leadership and differentiation (Porter, 1985) .

Distinctive competencies help a firm stand out in its markets when its competencies are superior to its competitors (Andrew, 1971). Core competencies and distinctive competence are two main factors that induce SMEs to have competitive advantage. Competitive advantage is important for businesses. Not all businesses have competitive advantage; however, they have to find ways to have it. The competitive advantage is a concept of special importance.

### **Sources of competitive advantage**

On the one hand, it is important for SMEs to obtain, maintain and increase the competitive advantage through the resources they may have and insure. On the other hand, SMEs have to do the external analysis to identify the opportunities and threats and to do the internal analysis: to identify the

distinctive competencies. According to Resource - based theory, in depth time competitiveness of a firm depends on the resources it possesses that differentiate it from its competitors and are durable and difficult to imitate and substitute ( Zaridis, 2009) .

Some of the businesses have tangible assets, whereas some others have strong intangible assets; both of them give strong impact in creating sustainable competitive advantage. Financial, physical, technological assets are great resources for the SMEs and these are not hard to identify. However, organizational assets are not exactly tangible or intangible assets, but they constitute a great resource in business, and in the organization of all resources.

Tangible assets		Intangible assets	
Financial		Human	
Firm's cash account and cash equivalents		Experience and capabilities of employees	
Firm's capacity to raise equity		Trust	
Firm's borrowing capacity		Managerial skills	
		Practices and procedures	
Physical		Innovation and creativity	
Modern plant and facilities		Technical and scientific skills	
Favorable manufacturing locations		Innovation capacities	
State of the art machinery and equipment			
Technological		Reputation	
Trade		Reputation with customers	
Innovative production processes		Reputation with suppliers	
		Brand name	
Organizational			
Strategic planning processes			
Excellent evaluation and control systems			

**Source:** Dess, et. al (2007)

According to Lynch (2000), there are some sources of advantage in the organizations. They are:

- Differentiation
- Low costs
- Niche marketing
- High performance or technology
- Quality
- Vertical integration
- Service
- Synergy
- Culture, leadership and style

It is important for SME managers to know (Goldsmith 1995):

- ✓ pay ongoing attention to external factors- technological, economic, political and social factors,
- ✓ keep in match among those external and internal factors,
- ✓ strategic management is an operation an interactive process.

According to Kume (2010), in the incoming years, the competitive advantage may have its sources based on:

- Quick answers,
- Continuous improvement of the product and services,
- Service added in products,
- Distinctive competences,
- Skilled and trained staff for the long run.

### **Issues related to the Albanian SMEs**

Most of the SMEs in Albania are trying to create competitive advantage through differentiation. Some of them are creating it through cost. At the beginning, the SMEs did not pay the right attention to the creation of competitive advantage, but things have changed for good. Nowadays, they are doing their best. Some of the Albanian SMEs succeed and some fail because there are a lot of problems, as:

- ❖ lack of vision and mission,
- ❖ lack of strategic management,
- ❖ lack of investment,
- ❖ lack of innovation,
- ❖ lack of experience,
- ❖ lack of marketing research,
- ❖ lack of knowledge about customer's needs,
- ❖ lack of technology
- ❖ etc.

Lack of strategic management is related to the fact that it often happens to start a business without having a strategy how to realize the great idea. Obviously, the mentality has already changed and things have improved. Lack of innovation is related to the fact that innovation doesn't come from a single person. It comes from the business itself. Innovation is there, but someone in collaboration with others, has to bring it. This happens when there is a support within the firm, when there is the freedom of thought and the freedom to do things the way people feel and that's the best. There is

often a good will, but there is lack of experience. To be the member of the business family does not suffice; what counts a lot is to employ the right person, the person who has the experience, the capability and the skills to do the work perfectly. To realize this, the organizations have to view their staff as valuable resources. Successful organizations have to create space to their staff, in order that they could do their best, and show what they are well known of. Sometimes, for most businesses, human resources are the main resources that SME probably have. Understanding and managing their human resources and their culture is considered as a competitive advantage by them. Lack of customer's need is what businesses have to consider. SMEs manager should first be involved in identifying what the customer needs are and translate them into the planning of a new product or a new service. Knowing customers' need about the product or service helps them to meet customers' expectations. Customers' expectations are continuously increasing; companies are now required to go beyond their primary need of satisfying the customer, they are exceeding the expectations to delight the customer. Micro, Small and Medium Enterprises do not possess enough ability to manage the technology (Wang H.& Wu, Chunyou, May 2011).

Central and local governments are following policies that encourage and stimulate the development of SMEs and economic sectors, in order that they could make best use of potential resources. Hence, despite improvements and the progress that this sector has had in this period, SMEs are still facing a lot of difficulties.

## **Conclusions And Recommendation**

- ✓ Despite the initiative to face challenges, SMEs, managers or owner-managers have to spend more time with management, strategies, because this will help to understand the current situation and to make safe steps towards the future. Managers have to be aware of what they are doing.
- ✓ SMEs managers should analyze the environment where the business is set up, is to be installed or is to be expanded. In this way, they have to do SWOT analysis in the light of objectivity to find out if things are going well. Based on this analysis, they have to decide whether they have to keep with the business. For the firms to go on, it's important to have a strategic management, and a competitive advantage, to generate a business plan, to know how things will go on, to analyze and to transform everything in reality.



- ✓ Perhaps it is high time to replace family members with professional managers, persons that have the capability, skills, and expertise to deal with the other members of the business. It is true that they are not managing their money, but the money of the others, and if they are encouraged to do that job, they will do it well. It's really too important to choose the person who knows how to run a business.
- ✓ SME 's manager and his staff have to try to be innovative and constantly bring their best to SMEs.
- ✓ What SME 's owner has to know and remember is culture. Culture is important because the SME's culture is unique and is hard to be duplicated. Culture has to do with the way to communicate with customers, suppliers and all other actors.
- ✓ Poor management, lack of managerial education, lack of initiative are some reasons why SMEs are not able to maintain the competitive advantage.

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